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EBERHARD BRODHAGE
RODNEY WILSON

Financial Markets in the GCC:
Prospects for
European Co-operation



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Financial Markets in the GCC: Prospects for European Co-operation

Eberhard Brodhage and Rodney Wilson,

*International Bank Relations Department, Commerzbank AG, Frankfurt and
University of Durham, Centre for Middle Eastern and Islamic Studies*

The extent to which efficient financial markets are a necessary pre-condition for development or merely a consequence of development has been long debated by economists.¹ In the case of the GCC the latter arguably applies as financial markets have developed in response to the needs of largely oil-based economies, but have played little part in shaping or facilitating economic development. Governments, with the possible exception of Bahrain, have done more to hinder than to encourage the growth of financial markets, and the GCC itself has not formulated any explicit policy.

The GCC markets are essentially national, although Bahrain has emerged as a significant regional financial centre, largely through unilateral opportunism rather than as a result of any planned regional co-ordination. Nevertheless though developments have been haphazard, the GCC has the most developed financial markets in the Arab World. This is largely a consequence of the oil wealth in the region, the free convertibility and stability of the currencies and the relative openness of the economies to international trade that requires financing.²

In this paper the GCC markets for banking services and company stock are examined. The role of Bahrain as a regional financial centre is assessed. The market for Islamic financing is discussed, as this is one area where the region makes a distinctive contribution to international finance. Links with Europe are reviewed, notably the involvement of European banks in the region. The scope for greater financial co-operation with Europe is considered, areas of potential interest including the use of the Euro, the cross listing of company stock and harmonisation of disclosure requirements and accounting practices by quoted companies.

The future role of GCC markets in global finance is far from clear, and the competitive strengths and weaknesses of the region in relation to major European centres must be acknowledged. Location, cultural and linguistic

¹ Maxwell Fry, "Money and capital: financial deepening in economic development", *Journal of Money, Credit and Banking*, Volume 10, Number 1, 1979, pp. 464-475.

² John Presley and Rodney Wilson, *Banking in the Arab Gulf*, Macmillan, London, 1991, pp. 1-8.

factors could give the GCC markets some potential competitive edge over other regions as far as the Mediterranean Arab states are concerned, which might be of interest to the European Union in the context of the Barcelona process. Nevertheless the trilateral co-operation involving Gulf capital, European expertise and Mediterranean Arab labour that was envisaged in the 1970s during the oil price boom never materialised, and scepticism must remain about this ever becoming a reality.

GCC financial institutions also enjoy some competitive advantage in niche areas such as Islamic financing as just mentioned. Here there is increasing co-operation between GCC based institutions and banks and markets in south and south east Asia, notably those of Pakistan, Malaysia and Brunei, and to a lesser extent Bangladesh and Indonesia. Some leading European bank offer a limited range of Islamic financial products, but little is available at the retail level for the vast majority of European Muslims in Britain, France and Germany, or indeed in the Balkans. There is potential for cooperation with GCC institutions in such financing, which the Jeddah based Islamic Development Bank and some of the Bahrain based Islamic commercial banks are interested in promoting.

Nature of banking services

Commercial banking services were the first to be provided in the Gulf countries, with much of the business being focused on trade finance with the provision of letters of credit, drafts and other trading facilities on a fee basis. As governments provided longer term development funding and project finance, the commercial banks tended to concentrate on short-term credits, and investment banking failed to develop. Family run business generated most of their financing from ploughed back profit or informal borrowings from family members, which limited the need for formal financial intermediation. Foreign exchange was often supplied by money-changers rather than banks, further limiting the scope for formal services. In these circumstances it was not surprising that the spread of banking was rather slow in relation to the expansion of economic activity in the Gulf with the advent of oil.

The banking products provided by GCC based banks are traditional: they accept deposits, grant loans, and provide account / payment services. As the region imports most consumer and capital goods, and the expatriate population (almost 30 percent of the region's total of 30 million inhabitants) transfer their wealth to their home countries, trade finance and international payments are also important products. The single most important product is extending loan facilities; it represents 45 percent of commercial banks' total assets.

Although trade financing still accounts for much of the banking business in the Gulf, there has been a growth in personal and consumer financing in recent years as the retail markets in financial services have expanded. Government employees, the majority of whom are now Gulf citizens, have their salaries paid into bank accounts rather than been paid in cash. Personal customers wish to maintain savings and investment accounts as well as current accounts, so that they can earn some return on their money even if it is relatively modest. In Saudi Arabia however, partly due to customer concerns about the Islamic prohibition of *riba* or interest, and partly due to account inertia, over sixty percent of deposits remain in current accounts rather than being in higher yielding savings accounts, which reduces the costs of money to the banks.³

Around one third of bank lending is now for house purchase, vehicle acquisition or the finance of "big ticket" consumer durable items. Housing loans are a relatively recent development in the Gulf, as in the past state owned real estate development institutions provided much of this financing on a subsidised interest free basis, but as there is now an eight year waiting list for such finance in Saudi Arabia, borrowers have turned to the commercial banks. As in the West vehicle distributors often encourage clients to purchase on credit or lease, which provides additional lending possibilities for the banks.

The client segments available to the GCC banks in their local markets offer little diversification. The region's economies tend to be dominated by Government spending; with the exception of Saudi Arabia and to a lesser extent the UAE, there is no manufacturing industry on the Peninsula. The corporate sector is heavily concentrated, with just a few ten families controlling the bulk of the GDP not produced through public services. The Government is a dominant client of the GCC banking system, both directly through borrowing funds from or placing money with the banks, and indirectly through government business with local companies, e.g. the construction industry. Otherwise, corporate banking opportunities are limited. Retail business tends to focus on loans, e.g. for housing mortgages or car purchases. Private banking clients, often described as high net worth individuals, tend to take their money abroad, but increasingly, GCC banks are developing products and services for this lucrative client segment.

Characterizing the typical GCC based bank, it provides in its immediate location a limited range of deposit, credit and payment (including trade finance) products to traditional clients segments (retail, corporate and their local public sector). It shows strength in vital aspects: the bank is focused, has a solid home base, and enjoys a good reputation in its local market. On the other hand, it faces

³ Riyadh Bank, *Saudi Economic Review*, Third Quarter 2000, pp. 9-10.

various challenges: the bank's products are unsophisticated, it relies for its income on interest-based products (loans and deposits, versus fee based income, e.g. from wealth management), it is constrained by lack of size, and it has no international expertise.

GCC banking assets are equivalent to approx. 85 percent of the region's GNP (adjusted according to purchasing power parity). The comparative figure for Germany is 260 percent. For the USA, the figure stands at 65 percent, but can be explained with the existence of efficient equity and debt capital markets. The GCC's debt or equity capital markets are insignificant, and investments in real estate offer only limited opportunities. Hence, the GCC's figure of 85 percent supports the view that very substantial financial assets of the GCC are held outside the region.

Structure of the banking system

Although Gulf currencies are freely convertible and there are no controls on capital movements, the markets for banking services, with the exception of the Bahrain offshore market, are national rather than regional in nature. There is only limited competition in these markets, as the GCC states, with the exceptions of Bahrain and Oman, have restrictive banking licensing policies that only permit institutions with majority local ownership to operate. The governments discriminate in favour of locally owned banks in their own financial business, often using state owned or partially state owned banks. Government agencies are encouraged to adopt similar practices.

The structure of the banking system created in the second half of the 1980s has, in essence, remained unchanged for the last decade. Nowadays, the GCC banking system comprises of some 80 banks with total assets (based on the annual reports available for banks, showing year end 1999 figures) of less than \$ 300 billion.

The majority of the banks - 55 of the total of 80 - are commercial banks, i.e. they offer deposit, credit and payment products to retail and corporate clients. These banks account for 80 percent of the region's banking assets. Ten Islamic domestic banks are licensed in five of the six GCC countries (Oman does not grant Islamic banking licenses); they hold 8 percent of the region's banking assets. The total assets of Islamic financial institutions do not represent the entire Islamic banking market: in Saudi Arabia alone, some \$4 billion are invested in Islamically compatible funds, managed by the Saudi banks. The market for Islamic financial products has expanded for many years, and their market share may have reached some 10 percent.

Six banks undertake the investment in international capital markets of regional personal wealth. Their share of the assets managed is about 2 percent (outside the banking system, there are numerous investment companies offering similar services). Specialized banks, e.g. for financing small scale industrial start-ups, or providing housing loans only, account for 8 institutions and 1.5 percent of assets. Finally, both Arab Banking Corporation and Gulf International Bank are active in the international markets; whilst based in Bahrain, their business is conducted with clients "offshore"; these two offshore banks represent almost 10 percent of total GCC banking assets.

The total capital base of the GCC banking system amounts to \$35 billion. About half of the institutions are capitalized between \$100 million and \$500 million. Twenty institutions have a capital base of less than \$100 million each. Together, these 60 institutions with a capital base of up to \$500 million each account for approximately \$10 billion of the capital employed in the GCC based banks. Of the remaining twenty institutions with an aggregate capital base of almost \$25 billion, half show a capital base of more than \$1 billion each, including the two Bahrain based offshore banks and the four largest banks in Saudi Arabia; the other half is capitalized at between \$500 million and \$1 billion.

The total asset base of GCC banks amounts to less than \$300 billion. Almost half of the banks show total assets of less than \$1 billion. About 20 institutions show assets between \$1 billion and \$5 billion. Some ten institutions have assets between \$5 billion and \$10 billion. Eight institutions with assets in excess of \$10 billion each represent total assets of \$125 billion, equal to almost 40 percent of the total market.

The opening up of the markets for banking services is unlikely, as there are many vested interests favouring the status quo, not least the influential shareholders of the existing banks and the Gulf governments. The new investment laws in Saudi Arabia exclude the banking sector except for GCC based institutions,⁴ even though there have been some pressures from the WTO and major trading partners to open up the market for financial services.⁵ Take-overs of Saudi Arabian or any other Gulf banks by European or American multinational banks would be unwelcome.⁶ Some of the major multinationals

⁴ Said Al-Shaikh, "Structure of Gulf banking and the effects of globalisation and financial liberalisation", *NCB Economist*, Volume 9, Number 2, March/April 1999, pp. 1-2.

⁵ Angus McDowall, "Two cheers for Saudi Arabia", *Middle East Economic Digest*, Volume 45, Number 8, 23rd February 2001, pp. 4-5.

⁶ Prince Abdullah bin Faisal bin Turki Al Saud, Governor of the Saudi Arabian General Investment Authority, makes this clear by implication, but uses measured language. See interview with the *Arab Banker*, Volume 14, Number 2, 2000, p. 17.

could also lose as a result of competition. Citicorp, which owns a forty percent stake in Saudi American Bank, or HSBC, which owns a similar stake in the Saudi British Bank, would not like to see the entry of American or European rivals into their lucrative market.

There has been a long history of bad debt problems of Gulf banks, either as a result of fraud, or because some borrowers, including members of the ruling families, would not honour their debt obligations. This also makes opening up the banking systems a sensitive issue, as greater transparency over debt could cause embarrassment. In the past Gulf governments have bailed out banks that had bad debt by influential people, but if banks were foreign owned it would be more difficult to disguise, let alone justify, such interventions. Apart from moral hazard problems, there is the issue of who is subsidising whom. In the United Arab Emirates the system is even more parochial, as there are no truly national banks, each Emirate having its own "national" banks, owned by the local administration, that often has a cosy relationship with its leading clients, who are usually also the ruling families. It is difficult, if not impossible, to manage crises across borders, as was seen when a Qatari-backed bank collapsed in the Palestinian Autonomous Area.

The fragmentation of the banking system in the Gulf into national or sub national units means that even the largest institutions are small players by international standards, with none in the global hundred top banks by asset size. The largest bank in the Middle East and Arab world, the National Commercial Bank of Saudi Arabia, is only ranked 140th in the Banker's Magazine ratings of assets. It only became a joint stock company in 1997, being hitherto owned largely by the Bin Mafouz family. In 1999 because of the need to ensure its financial stability, the Saudi Arabia Public Investment Fund acquired a 50 percent shareholding, and the Government Pensions Organisation acquired 10 percent, resulting in the bank being effectively a largely state owned institution.⁷ As the Riyadh Bank, the second largest institution in the kingdom in terms of assets, has been half state owned since the 1950s, this means that the role of private capital in the Saudi Arabian banking system is very limited. Indeed the current trend seems to be towards nationalisation rather than privatisation, although this simply reflects pragmatism rather than ideology.

Regulatory issues and bank risks

Given the limited opportunities available to financial institutions in the GCC region, an expansion of their activities beyond the borders of their home country should seem a natural choice for at least the larger GCC banks. However, even

⁷ www.alahli.com

in a much further developed and already converging market like the European Union, banking services are not easily taken across borders, as clients' expectations vary. Also, a bank's risk profile invariably changes when extending credit to clients outside the bank's domestic market, because of e.g. legislation, currency, accounting or enforceability risks.

Banks' capital determines their capacity to lend in a variety of ways, imposed on them through banking laws / regulations, usually by the local regulator (in the GCC, this role is always taken by the Central bank). Most important are:

- the single borrower limit; anyone borrower's credit facilities should not exceed a certain percentage of the bank's capital, e.g. 10 percent.
- the capital adequacy ratio; a bank's risks assets (including but not limited to loans / credit facilities) must be supported by a certain percentage of core and possibly secondary / subordinated capital. In the GCC-countries, the capital adequacy ratio varies between 8 percent and 12 percent of risk-weighted assets. Consequently, one unit of capital gives the average GCC-based bank the capacity to lend 10 units of currency.

At a total capital base of \$25 billion, the capacity of the larger GCC-based banks (those with a capital base of \$500 million or more) to extend credit facilities appears limited.

One of the most important yardsticks to judge a bank's performance is the return achieved on the bank's capital. Factoring in the risk weighting of the assets, banks measure their return on risk-adjusted capital. An expansion of activities beyond the home market should, in view of its inherent risks and greater volatility, produce a higher return on the capital employed than the return achieved in the domestic market.

At present, the risk weighting of assets is based on a matrix composed of the borrower's home country, the type of credit facility, the maturity and the classification as a sovereign, bank or corporate/individual. Depending on the combination of these four factors, the risk weighting ranges between zero and 100 percent. When looking at cross border business conducted by GCC-based banks with Arab Mediterranean countries, the risk weighting for any type of loan with a maturity of more than one year is 100 percent.

Beyond the regulatory, "legal" capital required for risk business, most banks employ internal models to assess credit and operational risk across their entire portfolio, and measure the return derived from credit business against capital cost, transactional cost, and statistical probability of a certain category of

borrower to default, i.e. not repay the loan or perform their obligations. The correlation of the performance of risks within the portfolio is measured, and a GCC based bank employing such a portfolio model for credit risk would seek risks with a negative correlation to the performance of the existing portfolio when expanding its asset base.

The introduction of a globally acceptable risk weighting and capital requirement model based on credit ratings by the Basle Committee on Banking Supervision, the global banking supervisory body, has recently been delayed until 2005. However, banks and regulators are in agreement that rather than deriving the risk weighting from the before described static matrix, the capital to be provided for financial and operational risks should be based on the dynamic quality of the underlying risk. When the new rules are implemented from 2005, they will require substantially less capital for high quality borrowers, but higher amounts of capital for more risky business.

Whilst most of the GCC-based banks enjoy the so called "investment grade rating", the present credit rating of Arab Mediterranean countries is substantially below investment grade. At this level, banks may be forced to provide as much as twice the capital required under existing rules. To still make the lending business profitable, the credit margins would have to be doubled, and at the same time the capacity of the GCC-based banks to lend to Arab Mediterranean countries would be halved. Also, an increase of loans to below investment grade - borrowers will have a negative impact on the banks' own ratings.

The future focus of activity for GCC banks

Another limiting factor may be the banks' focus on traditional banking products: the availability of substantial amounts of government business spoiled banks in the GCC region. In their home markets, they will be expected to play an enhanced role for the private sector, necessitating the build up of experience in evaluating credit applications and managing credit risk. It is at least questionable whether the banks, based on their limited experience in their domestic markets, have the know-how available to analyse and manage credit risks beyond their own legislation.

Joining the World Trade Organization (WTO) will present opportunities for the GCC-based banks in their regional markets: even for banks from neighbouring countries, the GCC's central banks have been reluctant to issue banking licenses over the last two decades. WTO should bring about cross-border banking mergers or alliances in the GCC-market leading to larger, more efficient and higher capitalized financial institutions. However, the opening of

the domestic markets to foreign banks will also present significant challenges to the GCC-banks. In most markets, they will for the first time be exposed to competition, in particular in the retail- and private banking market, and foreign banks will target the better-rated, larger corporations with international operations. The profitability of the banks' clients will be affected, as some of the monopolistic structures in the region, e.g. exclusive agency agreements with suppliers from abroad, will have to be relaxed. In such a scenario, the banks would seem well advised to focus on defending their home turf, rather than diversifying their business by competing in foreign markets.

The GCC-based banking system appears to have limited capacity to contribute to the development to the Arab Mediterranean countries. Rather, the banks face numerous challenges in their home countries, suggesting that they will focus on developing, defending and expanding their franchises in the GCC market in the years to come.

Bahrain's role as an offshore financial centre

The restrictions on foreign banks operations in the Gulf presented an opportunity for any country in the region seeking to pursue a more liberal policy, as during the oil boom years of the 1970s many international banks were seeking to attract business from the area. Bahrain took this opportunity by passing Offshore Banking Regulations in 1975 that permitted foreign banks to register for business for a modest fee, without being liable to monetary controls or other regulations, provided their dealings were with non-residents.⁸ Although Saudi Arabia and Kuwait had reservations about this initiative, Bahrain was allowed to proceed, as its neighbours recognised the need that the island had to diversify into services given its limited oil resources. Bahrain had a relatively well-educated population orientated towards service activity, partly because of its historical trading role, but because of the extensive British military presence prior to independence, which created employment for local residents in an English-speaking environment.

The Lebanese civil war meant that Beirut banks could no longer serve the Gulf.⁹ As a consequence there was little regional competition for Bahrain, which was in any case better located geographically to serve the Gulf, and enjoyed a common time zone with Saudi Arabia. Offshore banking quickly took off with \$2.5 billion deposited in 1976 from neighbouring Gulf countries, and over \$16

⁸ Rodney Wilson, *Banking and Finance in the Arab Middle East*, Macmillan, 1983, pp. 110-119.

⁹ Jean-Francois Seznec, *The Financial Markets of the Arabian Gulf*, Croom Helm, 1987, p. 12.

billion by 1979.¹⁰ The number of offshore banks on the island peaked at 74 in 1984, although subsequently the number was to fall to 46 by 1997.¹¹ Several factors brought about this decline, the most notable being the oil price declines of the mid to late 1980s and the Iraq-Iran and Gulf Wars. Domestic tensions in Bahrain between the Sunni Muslim rulers and the Shia Muslim majority contributed to the uncertainty, although this tension has now eased with the referendum on turning the island into a constitutional monarchy and the release of political prisoners.

Those banks that have maintained their operations on the island through the difficulties of the late 1980s and 1990s have emerged as strong regional players, and the market has grown to a record size. The value of assets and liabilities in the offshore banks was almost \$92 billion by the final quarter of 2000,¹² and it seems probable that the market will be worth over \$100 billion by 2002. Over one third of deposits come from the GCC, mainly from other banks, and around 30 percent of lending is to GCC institutions. However over 30 percent of deposits come from Europe, which accounts for a similar proportion of lending.

These transactions are largely denominated in dollars, which accounts for around three quarters of the total, but Euro denominated loans were worth \$7.2 billion by the end of 2000, and Euro denominated deposits worth \$6.8 billion. These Euro denominated assets and liabilities are only to a limited extent a substitute for those denominated in Euro zone currencies. The decline in assets held in Deutsche marks over the January 1999 to December 2000 period from \$2.9 billion to \$1.1 billion only accounted for a small proportion of the rise in Euro denominated assets. Had the Euro been stronger against the dollar over this period, there seems little doubt that more offshore banks would have adopted it for a larger proportion of their asset holdings. The Euro has nevertheless emerged as the third most important vehicle currency for Bahrain's offshore banks after the dollar and GCC currencies, mainly the Saudi Arabian riyal.¹³

Over half of offshore deposits and borrowings are between banks in Bahrain and their head offices or affiliates elsewhere. Around one quarter of deposits come from other banks, with a similar proportion from major regional

¹⁰ Rodney Wilson, "The evolution of the Saudi banking system and its relationship with Bahrain", in Tim Niblock, (ed.), *State, Society and Economy in Saudi Arabia*, Croom Helm, 1982, p. 296.

¹¹ Rodney Wilson, *Banking and Finance in the Middle East*, Financial Times Publications, 1998, p. 109.

¹² Bahrain Monetary Agency, *Quarterly Statistical Bulletin*, Volume 26, Number 4, December 2000, p. 21.

¹³ *Ibid.*, p. 22.

and multinational companies. Lending to these companies is less significant and holdings of securities on behalf of these companies account for a slightly higher proportion of assets. Much of the offshore activity therefore simply involves inter-bank transactions, usually of a short-term nature. The market is nevertheless an important source of liquidity for the banking system in the Gulf, and its future in this respect seems assured.

Bahrain has also become the major centre for jointly owned regional banks, the most notable of which are the Arab Banking Corporation and the Gulf International Bank. The latter was founded in 1975 and former in 1980, but ABC has become the larger institution with assets worth almost \$25 billion compared to \$15 billion for GIB.¹⁴ In 2000 GIB acquired the London based Saudi International Bank. This will raise the value of its assets closer to those of ABC. GIB is 72.5 percent owned by the Gulf Investment Corporation, which is in turn owned equally by the governments of all six GCC states. The remainder of the capital is owned by the Saudi Arabian Monetary Agency, (22.5 percent), and JP Morgan, (5.3 percent).¹⁵ ABC is owned principally by the Kuwait Investment Authority, (26.93 percent), the Central Bank of Libya, (26.79 percent), and the Abu Dhabi Investment Authority, (25 percent).¹⁶ GIB's core activity is commercial banking, but with the takeover of Saudi International Bank it is better placed to provide corporate finance and portfolio management and advisory services. ABC provides corporate banking, treasury services, Islamic banking and private banking.

Islamic financing

The most rapidly expanding segment of the banking market in the Gulf is for Islamic financial services. Worldwide Islamic finance has become a \$140 billion industry, and funds deposited and invested in accordance with the *shariah* Islamic law are increasing by 15 percent per year. A significant proportion of these funds are deposited with Islamic financial institutions such as Al Rajhi of Saudi Arabia or the Kuwait Finance House on a *mudarabah* profit sharing basis that avoids the use of interest.¹⁷

Islamic banking is, at least in the context of commercial banking activities, not different in any way from traditional banking. The notion held in some quarters that non-interest based banking is benevolent or at least cheaper is proven wrong by the largest Islamic financial institutions in the region: Al Rajhi Banking and Investment Corporation and the Kuwait Finance House have for

¹⁴ *Arab Banker*, Volume 14, No. 2, Autumn 2000, p. 84.

¹⁵ www.gibonline.com/information.htm

¹⁶ www.arabbanking.com/history.html

¹⁷ Rodney Wilson, *Islamic Finance*, Financial Times Publications, 1998, p. 29.

many years been the most profitable institutions in their respective domestic markets. Also, most banking supervisory authorities subject Islamic financial institutions to the same regulations in respect of capital, risk weighting of assets, or loan-deposit-ratios as "traditional" banks (even Kuwait Finance House, which is outside the Kuwaiti banking system, is subjected to the rules imposed on the Kuwaiti banks).

There are fifteen Islamic financial institutions in Bahrain, which has depth and breadth in this field of finance that rival centres cannot match. The pool of expertise and diversity of activity means that the island has established a lead on what is a very steep learning curve. While Islamic financial institutions elsewhere in the Gulf are mainly retail deposit takers, those in Bahrain are involved in investment banking, corporate finance and project appraisal. Their market is the entire Arabian Peninsula and South Asia, and there are strong links with Islamic banking units in other international financial centres, notably London.¹⁸

Saudi Arabia was reluctant to licence specifically designated Islamic financial institutions in the 1970s and early 1980s, as all banks operating in the kingdom were supposed to function within the *Shariah* Islamic law, even though most failed to offer the standard Islamic deposit or funding facilities.¹⁹ In contrast Bahrain welcomed designated Islamic financial institutions, especially those funded from Saudi Arabia. Hence the Faisal Islamic Banking group, which was instigated by Prince Mohammad bin Faisal of Saudi Arabia, established its major centre for operations on the island, as did the Albaraka group, founded by Sheikh Kamal Salam of Jeddah.

Today these are the largest Islamic financial institutions in Bahrain. Albaraka has merged its segmented Islamic banking activities into a single operation based in Bahrain which will have a paid up capital of \$550 million, resulting in it becoming the largest Islamic bank world wide in terms of capitalisation. Smaller but rapidly growing Islamic financial intermediaries include the First Islamic Investment Bank and the Islamic Investment Company of the Gulf, that are both based in Bahrain, each with a paid up capital of over \$100 million.

Recent re-organisations in Bahrain's Islamic banking sector should facilitate Islamic financial activity. The merger of the Faisal Islamic Bank of Bahrain with the Islamic Investment Company of the Gulf and the subsequent

¹⁸ Institute of Islamic Banking and Insurance "The present state of Islamic banking in the Gulf and its future prospects", *New Horizon*, London, Number 104, November 2000, p. 3.

¹⁹ Ibrahim Warde, *Islamic Finance in the Global Economy*, Edinburgh University Press, 2000, p. 208.

creation of the Shamil Bank created a much larger institution with assets of almost \$3 billion. Nabil Nasser of the former Faisal Bank was the initial President and Chief Executive, but this proved only a stop gap appointment, as on December 1st Dr Said Al-Martin took over, having been headhunted from Saudi Arabia's National Commercial Bank, where he had been responsible for Islamic banking services.²⁰

There is also regional and foreign Islamic bank involvement in Bahrain. The International Investor of Kuwait, which specialises in Islamic investment banking and private fund placements, is also seeking a share quotation on the Bahrain market, reinforcing the island's position as the major centre for Islamic finance. Many major international banks now offer Islamic financial services, including Citi Bank that established a subsidiary in Bahrain in 1996, Citi Islamic Investment Bank. Its managing director since 1999 has been Saad Zaman, who was previously based in Dubai. The Arab Banking Corporation also has an Islamic banking unit in Bahrain. Further evidence of the significance of Bahrain for Islamic finance comes from the Dutch Bank ABN-Amro. It has built up a Global Islamic Services operation in Bahrain to undertake project financing. Hitherto the bank has offered Islamic liquidity management, trade finance and some structured asset finance, but it sees scope to offer a wider range of services from Bahrain.

Islamic financial institutions have different types of assets and liabilities to conventional banks, and therefore they have to be reported upon in a different way. Bahrain is the headquarters of the Accounting and Auditing Organisation for Islamic financial institutions, which has drawn up the standards with which most Islamic financial institutions have agreed to conform. The treatment of credits granted for trade financing is different with Islamic financial institutions for example, as the bank temporarily owns the goods being financed, which raises the issue under *murabahah* trade finance of whether the goods should be valued at the price at which they were purchased by the bank or at the higher mark-up priced charged by the bank for the resale to its clients. Clearly consistent treatment is needed if meaningful comparisons are to be made using the financial accounts of different Islamic financial institutions.

The Bahrain Monetary Agency has acquired more experience of regulating Islamic financial institutions than any other central bank in the Gulf because of the number and diversity of Islamic financial institutions on the island. To date there have been no Islamic bank failures in Bahrain, and no scandals similar to that which affected the Dubai Islamic Bank in 1998. This

²⁰ Institute of Islamic Banking and Insurance "Bahrain studies issuing Islamic bonds, T-bills", *New Horizon*, London, Number 103, October 2000, p. 16.

bodes well for the future of Islamic banking on the island, as it brings customer confidence in the integrity of the institutions, and creates a stable environment for inter-bank dealings. The "High Council for Islamic Banking" that is being established to coordinate strategic developments will further reinforce the position of the island.²¹

Bahrain has also become the major centre in the Gulf for Islamic banking and finance conferences, which generates business for the island's hotels. The International Islamic Banking Forum held annually in Bahrain attracts over 500 bankers, and represents the largest gathering of its type with both Islamic and conventional bankers attending. Islamic Finance Consultants, the first specialist firm of its type, is also based in Bahrain. There is sufficient critical mass in Islamic banking to make such consulting services viable.

Although Islamic project finance is still in its infancy the banks in Bahrain are well positioned to provide such services. There is an increasing demand for private financing for infrastructure work and the expansion of utilities such as water and electricity. In 1999 ABC Islamic Bank in Bahrain signed a \$56 million leasing deal with the Sharjah Electricity and Water Authority for the purchase of two gas turbines. These turbines were needed for the second phase of the Wasit power station in Sharjah. The lease for the turbines will run for five years, with the possibility of an extension for a further two years. ABC Islamic Bank was able to attract 13 institutions, mostly based in Bahrain, to participate in the financing.

An Islamic bond market

The latest initiative in Bahrain involves the creation of a market in Islamic bonds.²² The Bahrain Monetary Agency plans to launch secondary instruments that will be backed by assets such as schools and hospitals that are regarded as socially desirable investments by Islamic jurists. Instead of new schools and hospitals being funded through government borrowing, Islamic bonds will be issued, the returns on which will be paid out of profits generated by the schools or hospitals. These institutions do not necessarily have to be private, as the government can pay the fees on behalf of the schoolchildren, or the patients if they are covered by the social security system. Profits therefore depend on the numbers attracted, and the difference between the cost of providing the service and the payments received.

²¹ Institute of Islamic Banking and Insurance "Bahrain plans High Council for Islamic banking", *New Horizon*, London, Number 107, March 2001, p. 17.

²² Institute of Islamic Banking and Insurance "Bahrain studies issuing Islamic bonds, T-bills", *New Horizon*, London, Number 108, April 2001, p. 16.

A working group has been established for the International Islamic Financial Market (IIFM) project comprising representatives from Bahrain, Malaysia, Saudi Arabia, Indonesia, Sudan, Brunei, Iran and the Islamic Development Bank. The aim is to establish a global Islamic financial market as an alternative to conventional markets. In practice the market will have two bases for trading, one in Bahrain and the other on Malaysia's offshore financial centre, the island of Labuan. As these are in different time zones in West and South East Asia, and at opposite ends of the Indian Ocean, each will have a hinterland that should ensure critical mass. Bahrain has already long been established as the major financial centre for the Gulf, and Labuan has served as an offshore centre for the last decade for Malaysia, Indonesia and Brunei. At the retail level transactions in Islamic bonds will be Internet based, at least in part. The Bahrain based Gulf Finance House, a new Islamic bank established in October 1999, is launching an Islamic e-bank aimed at the retail market. The Riyadh based backers have subscribed \$32.5 million in paid-up capital, with Injazat Technology of Jeddah one of the shareholders.

There is also to be a division of responsibilities between Bahrain and Labuan with respect to Islamic financial management. Bahrain is to be the headquarters for a liquidity management centre whose remit is to ensure markets in Islamic securities always have sufficient buyers and sellers to permit trading. In practice the major Islamic financial institutions will be expected to be market makers in securities issues in their name on behalf of their major clients. Labuan is to have a Market Management Centre that will research into the most appropriate methods of regulating Islamic financial markets to ensure all participants are able, as far as possible, to meet their purchasing and selling commitments.

Stock market development

Gulf stock markets are more developed than those in the Mediterranean Arab countries, as Saudi Arabia has the largest market by capitalisation in the Middle East or Arab World, and is second in the Muslim World after Malaysia. Its capitalisation of \$70 billion, more than twice that of the Kuwait stock market, largely reflects the size of the kingdom's economy.²³ Share price trends in Saudi Arabia depend on oil price developments and expectations regarding oil prices as might be expected.²⁴ International stock market developments affect market prices as much as government domestic policies largely because Saudi Arabian

²³ Rodney Wilson, *Banking and Finance in the Middle East*, op. cit., Financial Times Publications, 1998, p. 235.

²⁴ Saudi British Bank, "The Saudi share market", *Saudi Economic Bulletin*, Volume 5, Number 19, 2000, pp. 8-9.

investors in the market typically also have substantial sums invested in leading western markets, especially on the New York Stock Exchange and NASDAQ.

Most investors are individuals of high net worth who switch funds between the kingdom and Western markets, as well as into cash if market expectations are poor. International interest rate developments tend to affect the market, and SIBOR, the Saudi Inter-Bank Offer Rate moves in line with LIBOR, the London Inter-Bank Offer Rate, usually at a premium of 0.4 to 0.8 percent reflecting the higher perceived risks on Saudi riyal deposits despite its fixed parity with the dollar.²⁵

Foreign investors are not permitted to invest directly in the Saudi Arabian stock market, but may invest indirectly through mutual funds offered by the local banks. This provision is to ensure that foreign portfolio investment is not a back door route to the control of Saudi Arabian companies. The new foreign investment laws allow direct investment in many areas of the Saudi Arabian economy, but this is monitored and controlled through the General Investment Authority whose remit cannot easily be extended to portfolio investment. The Saudi American Bank has marketed a fund based in Saudi shares to foreign managers of emerging market funds with limited success. The other banks sell mutual fund products to non-citizens living in the kingdom, but they account for less than 20 percent of shareholdings in the local market.

Despite its size, the Saudi Arabian stock market is much smaller than might be expected. Malaysia has a similar population size to Saudi Arabia, and a GNP only 60 percent as large,²⁶ yet its stock market is almost two and a half times the size of that of the kingdom.²⁷ As the major source of project finance in the 1970s and early 1980s was the government itself, largely through the Public Investment Fund, the role for private equity financing was limited.²⁸ By the late 1980s more emphasis was being placed on the role of the private sector in development with falling oil prices, but these trends and the Gulf War did not inspire much local investor confidence; indeed there was much capital flight to western markets.²⁹

²⁵ Riyadh Bank, "The Saudi money market has experienced noticeable stability since 1999", *Saudi Economic Review*, Riyadh, Third Quarter 2000, p. 9.

²⁶ *World Bank Atlas*, 2000, pp. 42-43.

²⁷ *Ibid*, pp. 50-51

²⁸ Jean-Francois Seznec, *The Financial Markets of the Arabian Gulf*, op. cit., Croom Helm, 1987, pp. 51-52. See also Ayman Shafiq Fayyad Abdul-Hadi, *Stock Markets of the Arab World: Trends and Prospects for Integration*, Routledge, 1988, pp. 49-51.

²⁹ Rodney Wilson, "Economic prospects for Iraq and its neighbours in the aftermath of the Gulf War", in Haifaa A. Jawad, (ed.) *The Middle East in the New World Order*, Macmillan, London, Second edition, 1997, p. 182.

Despite these uncertainties by the mid 1990s the Saudi Arabian stock market had expanded considerably, and although the oil price falls in 1998 also brought stock price falls, in 1999 the all market index rose by an impressive 44 percent.³⁰ The following year prices were more stagnant, but 2001 looks reasonably encouraging to date. The market lacks breadth however, as bank shares account for almost half of market capitalisation, industry one third, utilities 15 percent, services only 4 percent and agriculture less than one percent. SABIC, (Saudi Arabian Basic Industries Corporation), is the largest quoted company, followed by the Saudi American Bank.

As elsewhere stock markets in the Gulf are nationally rather than regionally based, with most investors either only investing in their own domestic market and in one or more major western markets, but not usually in other markets in the Gulf which are perceived as having similar risk characteristics. Any attempt to create a regional market would be resisted by those Gulf countries with smaller markets, notably Kuwait, Bahrain, Oman, Qatar and the UAE, as the market would have to be located in Saudi Arabia, the dominant centre of activity. Institutions such as stock markets are a source of national pride, even when their actual performance is very variable.

The only real attempt at a regional stock exchange was the ill-fated *Souk al Manakh*, the unofficial stock market in Kuwait, where the shares of local companies that could not meet the regulatory requirements of the official market, and those of companies registered elsewhere in the Gulf, were traded. This expanded rapidly after the 1979-81 oil boom, but in 1982 the bubble burst, and the market was closed, leaving a huge amount of bad debt that it took over a decade to clear up.³¹ Many of the shares were purchased with borrowed money, and the loans could not be repaid once the share prices collapsed. The very limited financial information provided by the companies quoted was, however, the fundamental cause of the market collapse, as by 1982 stock valuation were excessive in relation to the underlying income and asset values of the companies.

Unlike most developing countries Saudi Arabia has a significant mutual fund industry with around \$7 billion invested in funds based and marketed within the kingdom. The banks cross sell mutual funds as investment products to their current and savings account holders, the National Commercial Bank being the most active promoter of these funds, accounting for over half the local

³⁰ *Arab Banker*, Volume 14, No. 2, Autumn 2000, p. 32.

³¹ Rodney Wilson, *Banking and Finance in the Arab Middle East*, Macmillan, 1983, pp. 172-176.

market.³² Most of the funds offered are dollar denominated with the investments going into major multinational companies quoted in New York, but some of the funds invest in the stocks of local companies and are riyal denominated. Over one third of the mutual funds are described as Islamic, as investments are in companies that are screened for *Shariah* compliance, investment in those whose main source of income is derived from alcohol, pork products, gambling, pornography or interest transactions being prohibited. There are many parallels between the western ethical mutual fund industry in the West and Islamic mutual funds.³³

The recycling of private sector wealth

The privately held wealth of the GCC is subject to many fabled myths. Numbers quoted for financial assets held by GCC individuals and corporations outside the region range between \$500 billion and \$1,000 billion. Given the top-heavy wealth distribution in the GCC-countries, with the principle source of income - the exploitation of the country's oil resources - still considered the property of the ruling families, which they then share with their subjects, the wealth will most probably lie in relatively few hands. The latest FORBES billionaire's list, with 583 billionaires globally, shows seven billionaires with total financial assets of some \$35 billion for Saudi Arabia alone.

The perception of many bankers working in the GCC countries is that the privately held wealth taken abroad is viewed as financial reserve for "rainy days". Entrepreneurial investments abroad (i.e. foreign direct investment) are the exception; mostly, the money is entrusted to Swiss, American and to a very much lesser extent other European banks for investments in their financial markets. In addition to equities and bonds, GCC based investors have - perhaps based on the experience in their domestic markets - an inclination to invest in commercial real estate.

Over the last five years or so, the region has been rife of talk of money being repatriated for investment and private sector activities in the GCC, but available statistics still show substantial capital out-flows from the region.

³² Said Al-Shaikh, "The mutual funds market in Saudi Arabia", *NCB Economist*, Volume 10, Number 2, March/April 2000, pp. 5-12.

³³ Institute of Islamic Banking and Insurance "Monitoring the performance of Islamic equity funds", *New Horizon*, London, Number 103, October 2000, p. 6.

The European Union's Actual and Potential Role in Gulf Finance

European banks have been involved in the Gulf since the early twentieth century, notably the British owned Eastern Bank, which operated from Iraq, but has a branch in Bahrain from 1917, and the Imperial Bank of Persia, later renamed the British Bank of the Middle East, which had a branch in Kuwait from 1942.³⁴ The Netherlands Trading Society, later the Al-Bank Al-Saudi Al-Hollandi, established a banking operation in Jeddah in 1927,³⁵ thirty years before the arrival of Citibank in the Kingdom, although admittedly the Americans played a key role in the founding of the Saudi Arabian Monetary Agency in the 1950s which was to serve as the kingdom's central bank.³⁶

The scope for European bank involvement in retail services in the Gulf is limited however, as the countries are reluctant, as already indicated, to open up their domestic markets to international competition. There is more potential for co-operation with existing local banks, through the provision of specialist services, although even in this respect institutions such as the Arab Banking Corporation and the Gulf International Bank play a major role, reducing the need for reliance on wholly European owned banks. There is a continuing demand from the Gulf for private banking services from clients of high net worth, the main competition for European Union banks coming from the Swiss. There is potential for European Union based banks to develop Islamic financial products for the Gulf market. Some, notably London based HSBC,³⁷ and the Dutch bank ABN-Amro, are active in this market with specialist Islamic banking units, but other leading European banks tend to provide such services on a one-off rather than on a regular basis.

Capital market integration between Gulf and European markets is more problematic when neither region has an integrated market.³⁸ There is scope for cross listing by major Gulf companies such as SABIC or Etisalat, the UAE mobile telephone company, the largest quoted company in the region in terms of market capitalisation.³⁹ Another possibility would be for major European stock markets to provide technical assistance to markets in the Gulf. NASDAQ may

³⁴ Rodney Wilson, "Financial development of the Arab Gulf: the Eastern Bank experience, 1917-1950, *Business History*, Volume 29, Number 2, April 1987, pp. 178-198.

³⁵ Adnan M. Abdeen and Dale N. Shook, *The Saudi Financial System*, Wiley, 1984, p. 60.

³⁶ Arthur N. Young, *Saudi Arabia: the Making of a Financial Giant*, New York University Press, 1983, pp. 55-74.

³⁷ Rodney Wilson, "Islamic investment products in the UK", *Institute of Islamic Banking and Insurance, New Horizon*, London, Number 107, March 2001, pp. 3-4.

³⁸ Henry Azzam, "Gulf capital markets: development prospects and constraints", in Heba Handoussa, (ed.), *Development of Financial Markets in the Arab Countries, Iran and Turkey*, Economic Research Forum for the Arab Countries, Iran and Turkey, 1995, pp. 181-198.

³⁹ www.meed.co.uk/top500.asp?Target=top

look to expand its influence by building such alliances with other exchanges through joint ventures and European markets may wish to participate in or compete to establish similar ventures in the Gulf.

Regulatory issues differ in the GCC to those in the European Union, but there is scope for co-operation with agencies in Europe such as the Financial Services Authority in the United Kingdom, that liaises with Gulf central banks in any case regarding banks from the region with a presence in London. There is also scope for co-operation with the European Central Bank given its experience in managing the single currency, as the GCC states are seeking to maintain fixed parities between their currencies as a move towards a regional currency union.

The GCC states are interested in using the Euro as an alternative to the dollar in the interests of diversification. The adoption of the Euro in the GCC will be determined by its international acceptance as a vehicle currency and asset holding currency by third parties. This will in turn depend on how the Euro performs on currency exchanges against the dollar. Some move away from Eurodollar deposits into Euro was expected by Gulf commercial banks after the advent of the new currency in January 1999,⁴⁰ but so far the banks have been very cautious. This has also been the case with the central banks and monetary agencies in the Gulf, which continue to hold reserves largely in dollars. As oil prices are dollar denominated and as Gulf currencies are maintained at fixed parities to the dollar it is inevitable that the use of the Euro will remain limited, both for payments and for intervention purposes to support Gulf currencies.

The future use of the Euro in the Gulf will ultimately depend on the extent of European Union trade and financial transactions with the region, as well as on the Euro's perceived success in relation to the dollar. The adoption of the Euro will reflect, rather than drive, these economic relations. Given the strained political relations between the Gulf and the United States over Israel and the fact that the Gulf states may be excluded from the proposed American missile defence shield against rogue states, there may be a political desire to see a repositioning of Gulf economic interests. Unfortunately economic realities may not match political aspirations as far as European Union-GCC relations are concerned.

Eberhard Brodhage & Rodney Wilson

⁴⁰ Rodney Wilson, *Banking and Finance in the Middle East*, op. cit., Financial Times Publications, 1998, p. 68-69.

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Aggregate loans, assets and equity of Bahrain banks, December 2000

Country	Bank Name	Status	Rating	Loans USD Mio	Total assets USD Mio	Equity USD Mio
Bahrain	Al Baraka Islamic Bank BSC	Islamic		139	193	59
Bahrain	Al-Ahli Commercial Bank B.S.C	Commercial		527	866	127
Bahrain	Alubaf Arab International Bank	Commercial		75	146	62
Bahrain	Arab Banking Corporation BSC	Offshore	BBB-	4,294	10,436	1,851
Bahrain	Arab Islamic Bank EC	Islamic		50	82	56
Bahrain	Bahrain Development Bank B.S.C.	Specialised		24	65	32
Bahrain	Bahrain International Bank E.C.	Investment	BBB	18	967	224
Bahrain	Bahrain Islamic Bank B.S.C.	Islamic		341	416	40
Bahrain	Bahraini Saudi Bank (The) BSC	Commercial		266	425	83
Bahrain	Bank of Bahrain and Kuwait B.S.C.	Commercial		1,345	2,734	277
Bahrain	BMB Investment Bank	Investment	BBB-	13	656	122
Bahrain	Commercial Bank of Bahrain B.S.C.	Commercial		194	298	31
Bahrain	Gulf International Bank BSC	Offshore	BBB+	3,023	15,120	1,206
Bahrain	Investcorp Bank EC	Investment	BBB		3,131	763
Bahrain	Islamic Investment Company of the Gulf (Bahrain)	Islamic		76	182	115
Bahrain	National Bank of Bahrain	Commercial		1,057	2,753	286
Bahrain	Shamil Bank of Bahrain EC	Commercial		110	289	128
Bahrain	TAIB Bank E.C.	Investment		34	513	121
Bahrain	United Gulf Bank (BSC) EC	Investment		100	733	208

Sources:

Bankscope Database V 16.00 (distributed by Bureau van Dijk).

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Aggregate loans, assets and equity of Kuwait and Oman banks, December 2000

Country	Bank Name	Status	Rating	Loans USD Mio	Total assets USD Mio	Equity USD Mio
Kuwait	Alahli Bank of Kuwait (KSC)	Commercial		1.679	3.817	474
Kuwait	Bank of Kuwait & The Middle East (The)	Commercial		1.095	2.948	415
Kuwait	Burgan Bank SAK	Commercial		1.545	3.776	470
Kuwait	Commercial Bank of Kuwait SAK (The)	Commercial	BBB+	2.377	5.055	597
Kuwait	Gulf Bank KSC (The)	Commercial	BBB+	3.067	5.412	593
Kuwait	Industrial Bank of Kuwait K.S.C.	Specialised		242	1.149	391
Kuwait	Kuwait Finance House	Islamic		3.566	5.815	606
Kuwait	Kuwait Real Estate Bank	Commercial		1.385	1.788	282
Kuwait	National Bank of Kuwait S.A.K.	Commercial	A-	4.244	12.477	1.312
Oman	Bank Dhofar Al-Omani Al-Fransi (saoc)	Commercial	BBB-	513	680	89
Oman	Bank Muscat SAOG	Commercial	BBB-	1.514	1.942	163
Oman	Bank of Oman, Bahrain and Kuwait SAOG	Commercial		345	586	63
Oman	Commercial Bank of Oman S.A.O.G.	Commercial	BBB-	1.003	1.335	189
Oman	Industrial Bank of Oman SAOG	Specialised		87	134	67
Oman	Majani International Bank SAOC	Commercial		129	180	67
Oman	National Bank of Oman (SAOG)	Commercial		1.599	2.165	286
Oman	Oman Arab Bank SAOG	Commercial		591	718	100
Oman	Oman Development Bank SAOG	Specialised		264	298	54
Oman	Oman Housing Bank (S.A.O.C.)	Specialised		435	444	141
Oman	Oman International Bank	Commercial		1.452	2.172	220

Sources:

Bankscope Database V 16.00 (distributed by Bureau van Dijk).

Commerzbank Global Financial Institutions Risk Management Department

Aggregate loans, assets and equity of Qatar and Saudi Arabia banks, December 2000

Country	Bank Name	Status	Rating	Loans USD Mio	Total assets USD Mio	Equity USD Mio
Qatar	Al Ahli Bank of Qatar (Q.S.C.)	Commercial		365	733	78
Qatar	Commercial Bank of Qatar (The) QSC	Commercial		627	1,275	139
Qatar	Doha Bank	Commercial		747	1,391	123
Qatar	Qatar Industrial Development Bank	Specialised		4	68	45
Qatar	Qatar International Islamic Bank	Islamic		439	505	83
Qatar	Qatar Islamic Bank SAQ	Islamic		861	1,094	83
Qatar	Qatar National Bank	Commercial	BBB	3,745	6,764	1,191
Saudi Arabia	Al Bank Al Saudi Al Fransi	Commercial		3,848	8,657	881
Saudi Arabia	Al-Rajhi Banking & Investment Corporation	Islamic	BBB+	5,556	11,434	1,517
Saudi Arabia	Arab National Bank	Commercial	A-	3,441	9,454	817
Saudi Arabia	Arab Petroleum Investments Corporation - APICORP	Specialised		854	1,640	626
Saudi Arabia	Bank Al-Jazira	Commercial		460	1,321	161
Saudi Arabia	National Commercial Bank (The)	Commercial		15,064	24,519	2,144
Saudi Arabia	Riyad Bank	Commercial		5,466	17,471	2,136
Saudi Arabia	Saudi American Bank	Commercial	BBB+	8,406	21,514	2,294
Saudi Arabia	Saudi British Bank (The)	Commercial	BBB+	4,614	11,505	944
Saudi Arabia	Saudi Hollandi Bank	Commercial		2,451	5,048	436
Saudi Arabia	Saudi Investment Bank (The)	Commercial	A-	1,883	3,521	453
Saudi Arabia	United Saudi Bank	Commercial		2,951	7,294	847

Sources:

Bankscope Database V 16.00 (distributed by Bureau van Dijk).

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Aggregate loans, assets and equity of UAE banks, December 2000

Country	Bank Name	Status	Rating	Loans USD Mio	Total assets USD Mio	Equity USD Mio
UAE	Abu Dhabi Commercial Bank	Commercial		4,086	6,277	861
UAE	Abu Dhabi Islamic Bank	Islamic		577	730	305
UAE	Arab Bank for Investment & Foreign Trade -	Commercial		337	1,434	329
UAE	Arab Emirates Investment Bank PJSC	Investment		3	58	17
UAE	Bank of Sharjah	Commercial		267	465	88
UAE	Commercial Bank International PLC	Commercial		358	469	69
UAE	Commercial Bank of Dubai P.S.C.	Commercial	A	1,239	1,696	288
UAE	Dubai Islamic Bank plc	Islamic		2,057	2,542	286
UAE	Emirates Bank International PJSC	Commercial		4,047	5,603	884
UAE	Emirates Industrial Bank	Specialised		148	264	121
UAE	First Gulf Bank	Commercial		356	557	123
UAE	Investbank Plc	Commercial		399	607	111
UAE	Mashreqbank	Commercial		3,038	5,440	664
UAE	Middle East Bank PJSC	Commercial		355	593	162
UAE	National Bank of Abu Dhabi	Commercial	A+	4,557	8,522	718
UAE	National Bank of Dubai Ltd. (The)	Commercial		1,902	7,664	1,118
UAE	National Bank of Fujairah	Commercial		386	667	124
UAE	National Bank of Ras Al-Khaimah (P.S.C.)	Commercial		358	492	128
UAE	National Bank of Sharjah	Commercial		332	423	120
UAE	National Bank of Umm Al-Qaiwain	Commercial		329	478	106
UAE	Union National Bank	Commercial	A	1,787	2,681	311
UAE	United Arab Bank	Commercial		322	411	88

Sources:

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Aggregate loans, assets and equity of GCC banks, December 2000

Bank type	Loans \$US million	Total assets \$US million	Equity \$US million
Total Commercial Banks (54)	104.635	217.508	25.250
Total Islamic Banks (10)	13.662	22.993	3.150
Total Investment Banks (6)	168	6.058	1.455
Total Specialised Banks (8)	2.058	4.062	1.477
Total Offshore Banks (2)	7.317	25.556	3.057
Total all banks	127.840	276.177	34.389

Sources:

Bankscope Database V 16.00 (distributed by Bureau van Dijk).
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